



Expertise that Works

Procurement Card Program: Audit Testing Phase

Frederick County Public Schools, Maryland

Report #16-10

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I. Executive Summary

Background

SC&H has been engaged by the Frederick County Government (FCG, the County) Interagency Audit Authority (IIAA) to perform an audit of the processes and controls associated with Frederick County Public Schools (FCPS) Procurement Card (P-Card) function. This project represents the second phase of this review which began with a preliminary survey and risk assessment that concluded in June, 2016. The preliminary risk assessment phase focused on gaining an understanding of the current P-Card policies and procedures and the identification of key sub-processes within this function. The understanding obtained during risk assessment was used as a basis for establishing the objectives performed during the audit testing phase.

The purpose of the P-Card program is to provide authorized FCPS employees with a bank issued credit card that is used to make on-demand purchases of goods and services. There are three types of P-Cards that can be issued: standard P-Cards, declining balance cards, and card-less vendor accounts. Standard P-Cards are traditional credit cards with single transaction and monthly spending limits that replenish each month, while declining balance cards have a preset spending limit and expire at the end of each fiscal year. The card-less vendor accounts are with a large office supply company. FCPS does not issue physical plastic cards for these accounts.

Prior to receiving a P-Card, each employee must successfully pass a test pertaining to the various P-Card program policies and procedures. Each cardholder requests a monthly and single transaction spending limit which is approved by his/ her designated approving official. The approving official is responsible for reviewing his/ her subordinate cardholder's purchases to ensure they are in accordance with FCPS policy. These spending limitations are assigned to the cardholder's profile when the card is established and are automatically enforced by JP Morgan, FCPS's contracted third party vendor responsible for administering the P-Card function. JP Morgan provides FCPS with access to the PaymentNet system, which is used to manage P-Card accounts. P-Card spending data is received directly from MasterCard and uploaded to PeopleSoft, the FCPS accounting system. Additional parameters established within PaymentNet include prohibited purchases, such as tobacco and alcohol, as well as purchasing profiles that restrict cardholder transactions to vendors appropriate to the needs of his/ her position.

Cardholders are required to reconcile all transactions in PeopleSoft on an ongoing basis with a monthly deadline for completion. Cardholder spending is monitored by the employee's approving official. The approving official reviews and approves his/ her assigned cardholder's transactions within PeopleSoft. If a cardholder is not also charged with oversight of the school or department budget, he/ she must get additional transactional approval from his/ her designated budget specialist. Budget specialists provide additional review of transactions to ensure there are sufficient budgetary funds to support the purchase.

The P-Card program is administered by FCPS's P-Card Administrator and Assistant P-Card Administrator, who are both members of the FCPS Purchasing Department. On a monthly basis, the Assistant P-Card Administrator conducts a transactional audit of P-Card purchases completed within the monthly credit billing cycle. This audit includes a review of all purchases made by new cardholders, cabinet members, and cardholders on the Watch List. The Watch List is a log of cardholders who have used their P-Card to make an accidental or inappropriate purchase. The Assistant P-Card Administrator also selects and reviews a random sample of 10% of all P-Card transactions made during the period. Further, the P-Card Administrator and Assistant P-Card Administrator are also responsible for all aspects of card issuance, account adjustments, and card terminations.

Objectives

The IIAA established seven objectives for its audit of the FCPS P-Card function:

1. Evaluate and test P-Card transactions on a sample basis to identify instances where FCPS P-Card policies and procedures were not followed and controls may have been lacking or circumvented. This will include a review of the school budget and account codes, as well as the supervisor approval process.
2. Evaluate whether quotes for goods or services exceeding \$12,500 were appropriately obtained.
3. Evaluate misused cards and transactions for multiples instances of misuse.
4. Analyze P-Card transactions to identify whether P-Card purchases are also being submitted for personal expense reimbursement by employees.
5. Ensure terminated employee P-Cards are appropriately deactivated in a timely manner.
6. Evaluate temporarily suspended accounts and the notification process for reinstating those accounts.
7. Examine the Purchasing Department P-Card auditing and administration procedures to evaluate whether P-Card transactions are appropriately tested and reconciled on a monthly basis.

Scope

The audit process was initiated in June 2016 and completed in August 2016. The period in scope for the performance of this audit included all P-Card transaction and cardholder information for fiscal years 2015 and 2016, which encompasses July 2014 through June 2016.

Methodology and Approach

The goal of the engagement was to evaluate and test adherence to policies and procedures, as well as the areas of greatest risk within the P-Card process, as identified during the preliminary survey and risk assessment phase. In order to achieve the objectives of this audit, SC&H performed the following procedures:

Creation of Audit Program

SC&H created a detailed audit program which describes the action steps to address each of the objectives detailed above. The audit program was reviewed and approved by the Director-Internal Audit Division prior to implementation. The approved program was then used as a guide throughout the audit process to ensure that the goals of each objective were thoughtfully addressed and the resulting observations provided value-added and actionable information for FCPS and the County.

Data Analysis of Source Files

SC&H requested and received various database files, including all P-Card transactions for FY 2015 and 2016 and various cardholder profile/demographic information. Using these reports, SC&H performed a systematic data analysis to create an analytics package of P-Card usage and trends. These analyses include aggregation and quantification of transactions by department, vendor, dollar amount, and employee.

Transactional Testing

Using the data analyses created by SC&H and the JP Morgan source files, SC&H selected samples for detailed transactional testing. These selections and associated testing included:

- 30 randomly selected P-Card transactions: For each transaction selected, SC&H independently obtained supporting documentation from PeopleSoft. SC&H performed testing to verify the existence of a supporting receipt or invoice and note the approval of the transaction by the cardholders designated approving official within PeopleSoft.
- 7 randomly selected P-Card transactions greater than \$12,500: Cardholders are required by the Frederick County Public Schools Procurement Card Program Rules and Procedures to obtain bids or quotes for transactions greater than \$12,500. SC&H requested the associated invoice/ receipt and evidence that quotes were obtained for these transactions. The vendor quote documentation that was obtained for these samples was examined for existence, appropriateness, and compliance with policy.
- Non-P-Card Expense Reimbursements: SC&H performed data analyses to evaluate whether employees may have submitted receipts related to P-Card purchases as duplicate expense report reimbursements which are processed through the Payroll Department.

- 20 terminated/ transferred employee cardholders: For each tested cardholder, evidence of card deactivation and termination was obtained and reviewed for timely deactivation and update within JPMorgan.
- 5 suspended employee cardholders: For each cardholder tested, evidence of account suspension in a timely manner was requested and reviewed.

Summary of Work

After reviewing processes in place and evaluating the current control environment, SC&H concludes that there are process improvement opportunities that exist to increase overall effectiveness and efficiency.

The following section provides detailed observations and recommendations noted during the performance of this review.

We appreciate the assistance and cooperation of the management and staff of FCPS's Purchasing Department during the completion of the Procurement Card Program review. Please contact us if you have any questions or comments regarding any of the information contained in the audit report.

SC&H Group



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Principal

II. Detailed Observations and Recommendations

Observation 1

Notification of cardholder account suspension for employees on extended leave is not performed in a timely manner.

Observation Detail

FCPS Purchasing staff is notified on a daily basis, by an online report generated from Human Resources data, of employee status changes. Notification of an employee status change is communicated on the P-Card Terminated Cardholder Listing, which includes all types of status changes. Status changes include extended leave, terminations, or retirements. Once notification is received, the Assistant P-Card Administrator accesses the employee's account within JP Morgan and updates the account status, as appropriate.

SC&H examined five cardholder account suspensions. Of the five cardholders with suspended accounts, all were suspended after the effective date of the cardholder's extended leave as noted on the P-Card Terminated Cardholder listing. In all five instances, the date of the account status change, per JP Morgan, was the same date that the Terminated Cardholder Listing was provided to Purchasing, indicating that the Assistant P-Card Administrator changed the employee's account status on the date the information was received.

Risk

Not suspending a cardholder account in a timely manner creates the risk that a cardholder can continue to make purchases while on leave from FCPS. This can result in the misappropriation of budgeted funds to purchases of goods or services that do not fulfill a direct business need. Approving officials are required to review and approve all transactions, however a purchase made with a P-Card that has yet to be deactivated may not be detected until after the transaction had been completed and the item has been purchased/ delivered.

Recommendation 1.1

FCPS Purchasing staff should work with the Human Resources Department to establish procedures to effectively receive and communicate information regarding the employment status of employees that utilize a P-Card. As soon as the Human Resources Department is made aware of an employee who will be going on extended leave, the department should notify the Purchasing Department so that the appropriate measures can be preemptively performed. Cards should be suspended on the effective date of an employee's leave. This would help to reduce the risk that a cardholder will continue to use their card once on leave.

Management's Action Plan and Implementation Data

The Purchasing Manager and the Director of Human Resources met on September 1, 2016 to develop a solution to mitigate the risk. Human Resources has agreed to input suspended, extended leave, and or terminated employees into the system on the day of occurrence. These updated processes will be formally incorporated into Human Resources operating procedures. Purchasing will be notified by generating the BOE P-card Terminated Cardholders report, daily. All managers, principals, and assistant principals are alerted to the urgency of the risk, outlined by SC&H, through the "Hot Sheet" that was distributed to them at the Administrative Leadership meeting held on September 13, 2016.

Recommendation 1.2

In the event that the Assistant P-Card Administrator is not notified of an account status change until after the effective date, he/she should review cardholder account activity from the effective date of an employment status change to the date the account status was changed within the system. The Assistant P-Card Administrator should verify that no purchases were made on, or after, the effective date of an employee going on extended leave. Reviewing transaction history to verify that the employee did not use his/her card while on leave may help to mitigate the risk of misappropriation of funds.

Management's Action Plan and Implementation Date

As part of the monthly audit, the Assistant P-card Administrator will verify that no purchases were made on, or after, the effective date of an employee's departure. The P-card Administrator will review the JP Morgan cardholder status report to confirm the deactivation of all cardholders according to the cardholder maintenance forms, as part of the monthly audit. These actions will be a revision to the Pcard Audit Procedure (OP037) to be completed by 10/31/2016.

Observation 2

Current procedures for tracking P-Card misuse and resulting cardholder discipline do not align with the P-Card policy document and are not sufficient to deter subsequent problem transactions.

Observation Detail

There is no process in place to penalize, or hold accountable, cardholders with multiple instances of P-Card misuse. The P-Card policy notes that “improper use of the procurement card, or unresponsiveness to requests for information or documentation during the P-Card audit process, may result in an account suspension.” The policy further states that “cardholder accounts that have been suspended multiple times shall be revoked. The Cardholders and the Approving Official will be notified that the account has been revoked.” However, despite the inclusion of suspension and revocation sections within the policy, a process is not in place to enforce these requirements. Currently, upon identification, Purchasing notifies the cardholders and their approving officials of a purchase that requires reimbursement to FCPS due to accidental or inappropriate usage. Cardholders are required to obtain reimbursement from the vendor, return the item, or personally reimburse FCPS, depending upon the type of misuse.

SC&H reviewed the personal purchases Remittance Log, for FY15 and FY16, which lists all personal/inappropriate transactions that occurred using a P-Card that require reimbursement to FCPS. The cardholders noted on this list were identified through self-reporting of error, identification during supervisory review, or through the audit procedures performed by the Assistant P-Card Administrator. There were a total of 40 transactions noted for both fiscal years, with seven cardholders experience multiple occurrences of misuse.

Cardholders found to have misused their P-Card are added to the Watch List and subject to an audit of 100% of their transactions for four months: the billing cycle in which an inappropriate purchase was made and the three following months. The original intent of this process was to include a three month monitoring period, as noted by the P-Card Administrator. Instances of misuse are documented on the Watch List, a document regularly updated by Assistant P-Card Administrator while performing their review procedures. Within the Watch List, the cardholder name, date of inappropriate purchase, review period, and transactions reviewed are documented. As a new instance of misuse is detected, a cardholder is added to the list. However, the list isn’t organized by period. As a result, it can be difficult to effectively identify who is being monitored in a given period. Further, SC&H noted one instance where the Watch List was not updated to accurately reflect the number of transactions reviewed.

Risk

Cardholders who have misused their cards may continue to do so without penalty. Consistent misuse increases the risk of inappropriate purchases being processed without detection.

Inappropriate spending can temporarily restrict funds while reimbursement is pending. Additionally, insufficient tracking tools associated with P-Card misuse increases the risk that inappropriate purchases will remain undetected.

Recommendation 2.1

FCPS should implement a policy surrounding disciplinary action for initial and recurring misuse of a P-Card. The implementation of a disciplinary policy strengthens the current control environment and may help reduce instances of cardholder misuse as cardholders are held accountable for making inappropriate purchases.

Management's Action Plan and Implementation Date

FCPS will revise the existing P-card Rules and Procedures (OP034) to reflect a more robust disciplinary policy for cardholders who commit an infraction against the program. The revised policy will also identify, and restate the length of time a cardholder is monitored. The revision will be completed by 10/31/2016.

Recommendation 2.2

FCPS should consider updating the procedures for monitoring P-Card misuse. Enhancement of the Watch List, such as grouping personnel by the required review periods based on the timing of misuse, may help to ensure that cardholders are being monitored for the appropriate amount of time and that no transactions are overlooked.

Additionally, FCPS should consider updating policies surrounding the length of time a Watch List cardholder is monitored. Monitoring the cardholders for four months creates additional effort for the Assistant P-Card Administrator. Reducing the review to the transactions in the current billing cycle plus two additional months may result in greater process efficiency.

Management's Action Plan and Implementation Date

The Watch List is a working document and changes throughout the audit. Cardholders with new instances found during the audit are added after the audit emails are sent. Cardholders already on the log are not updated until the monthly audit is completed. The Watch list log we currently use is logged by billing cycle and the audit is performed by the same dates. FCPS will update the working documents to reflect revisions made to the P-card Rules and Procedures (OP034) and the Pcard Audit Procedures (OP037). These updates will be completed by 10/31/2016. We agree that reducing the review to the transactions in the current billing cycle plus two additional months may result in greater process efficiency and will implement with the revisions.

Observation 3

Automated payment information transferred into PeopleSoft for Level 3 vendors may not be completely accurate.

Observation Detail

FCPS has a pre-approved listing of Level 3 vendors with whom they do business. Level 3 vendors are integrated into PeopleSoft to automatically transmit purchase data at the time of transaction. If an employee makes a purchase from one of these vendors, he/ she is not required to attach a receipt to the transaction within PeopleSoft, as the vendor automatically uploads invoice information into the system. The cardholder reviews the items listed within the transaction detail that is provided in PeopleSoft and submits the transaction for approval. Approving Officials verify that the purchase appears reasonable and approve the transaction within the system.

SC&H examined several transactions made from Level 3 vendors as part of the review of 30 regular P-Card transactions. In one instance, the total recalculated transaction amount, per the transaction detail, did not agree to the amount that was invoiced by the vendor.

Risk

FCPS operates under the assumption that as Level 3 data is automatically uploaded (vs. manual input), the data loaded into PeopleSoft is accurate as it relates to the associated transaction. This exception indicates a risk that inaccurate information is being uploaded into the system by vendors without knowledge by FCPS.

Recommendation 3.1

FCPS should enhance the review of Level 3 vendor invoices. In addition to reviewing the information that is automatically uploaded into PeopleSoft, cardholders or transaction reviewers should compare the transaction total and individual line items to information on the receipt/ invoice provided with the goods or services purchased. This may help to mitigate the risk of FCPS paying the incorrect amount for goods or services purchased.

Management's Action Plan and Implementation Date

FCPS will update the P-card Rules and Procedures (OP0374) with a section pertaining to Level 3 vendors. The revised section will identify a process for the review of Level 3 transactions. The procedures will be revised by 10/31/16.

Recommendation 3.2

FCPS should implement a periodic evaluation of Level 3 vendor invoices within PeopleSoft. This review should consist of a recalculation of the transaction total automatically uploaded into

PeopleSoft for each sample selected. This may help to identify system errors related to information transfer and mitigate the risk of FCPS paying the incorrect amount for goods or services purchased.

Management's Action Plan and Implementation Date

FCPS will update the Pcard Audit Procedures (OP037) with a section pertaining to Level 3 vendors. The revised section will identify a process for the review of Level 3 vendors and invoices. The procedures will be revised by 10/31/16.

Observation 4

Monthly Transactional Audit policy and procedure documentation has not been updated to reflect current department practice.

Observation Detail

Procedural documentation related to the Monthly Transactional Audit has not been updated since 2012. Upon further review, SC&H noted that the policy and procedure documentation does not include several processes that are presently performed on a monthly basis. As a result, process steps are being conducted that have not been formally documented.

Risk

Non-standardized processes can result in an overall reduction in efficiency, as functional steps may be improvised or recreated with each performance. Additionally, insufficient and non-current policy and standard operating procedural documentation creates a risk of interruption in business continuity, should the current Purchasing staff leave their positions.

Recommendation 4.1

FCPS should document the standard operating procedures for the Monthly Transactional Audit function to reflect all current duties. The narrative created in conjunction with the first phase of this audit may serve as an additional resource in documenting these procedures.

Management's Action Plan and Implementation Date

The Purchasing Department is in the process of revising the written audit procedure as an operation procedure. The new procedure, OP037, will be completed by 10/31/2016.

Observation 5

Terminated employee's cardholder access may not be deactivated timely in JPMorgan in order to prevent unauthorized usage following the end of employment.

Observation Detail

Of the sample of 10 terminated cardholders reviewed, one cardholder's access was not terminated for approximately two month's following retirement. For the sample exception noted, no Cardholder Maintenance Form was completed, however a handwritten note on school letterhead was received by Purchasing on 6/6/16 requesting the account be closed due to retirement. An additional note on the document indicated the account was closed on 6/29/16. Further, the JPMorgan Cardholder Status report noted the account "Closed Date" was 8/3/16.

Risk

Delayed deactivation of a P-Card following termination increases the risk of misappropriation through unauthorized purchases. As the cardholder is no longer an employee, obtaining reimbursement for inappropriate expenses may be difficult.

Recommendation 5.1

FCPS should implement a periodic secondary review to confirm the deactivation of all necessary cardholders on a regular basis. This secondary review can be performed by another member of Purchasing who reviews the JPMorgan Cardholder Status report and confirms the appropriate deactivations have been made according to the original Cardholder Maintenance Forms. This will assist in mitigating the risk of cardholders retaining access to their P-Cards beyond the appropriate period of time.

Additionally, the Human Resources Department should update policy and procedural documentation to state that the Purchasing Department will be notified as soon as a termination is communicated to Human Resources staff by an outside department. Immediate notification of terminations by the Human Resources Department will allow the Purchasing Department to deactivate cardholder accounts as soon as an employment status change occurs. This will further help to mitigate the risk of cardholders retaining access to their P-Cards beyond the appropriate period of time.

Management's Action Plan and Implementation Date

The Purchasing Manager and the Personnel Specialist from Human Resources have met and agreed to develop language that will define and document a procedure that will state that the Purchasing Department will be notified as soon as a termination is communicated to them,

from outside the department. Changes to the Human Resource and FCPS Pcard Audit Procedures will be made by 10/31/2016.